ANNUAL BUDGET OF

KOUGA LOCAL MUNICIPALITY

2015/16 TO 2017/18
MEDIUM TERM REVENUE AND EXPENDITURE FORECASTS

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Part 1 – Annual Budget

1.1 Executive Mayor's Report

It is my privilege to table the Integrated Development Plan as well as the Annual Budget for the 2015/2016 Medium-Term Revenue and Expenditure Framework.

The draft Integrated Development Plan and the Draft Budget were adopted by this Council on the 31 March 2015. Both the Draft IDP and the Draft Budget and the associated documentations were made public immediately after the documents were tabled in Council, and the community including the relevant stakeholders were invited to make representations as required in terms of the Municipal Finance Management Act and the Municipal Systems Act.

The Mayoral Committee had considered the representations of all stakeholders and both, the IDP and the Annual Budget have been changed accordingly where possible.

The final IDP/Annual Budget must be adopted by Council 30 Days before the start of financial year, refer to the Municipal Finance Management Act, s16(1) and 24(1) and hence I present the final budget to Council today for adoption.

I am very pleased to present the budget to this Council which is realistically prepared in terms of revenue and expenditure projections including provision for bad debt. The Annual Budget is summarised as followings:

Description	**Adjusted Budget 2014/2015**	**Budget 2015/2016**	**Budget 2016/2017**	**Budget 2017/2018**
	R'000	**R'000**	**R'000**	**R'000**
Revenue				
Property rates	141,287	146,960	155,043	163,260
Service charges	358,901	368,095	388,341	408,923
Investment revenue	1,591	2,078	2,192	2,308
Operating grants	87,865	92,151	97,220	102,372
Other revenue	32,264	29,456	31,076	32,723
Total operating revenue	**621,907**	**638,741**	**673,871**	**709,587**
Capital grants	45,467	33,360	35,195	37,060
Total revenue	**667,374**	**672,101**	**709,066**	**746,647**
Expenditure				
Employee costs	201,450	212,437	224,121	236,000
Remuneration of councillors	10,959	11,678	12,321	12,974
Depreciation	80,358	80,714	85,153	89,666
Finance charges	18,702	16,112	16,998	17,899
Bulk purchases	190,711	200,868	211,916	223,147
Other expenditure	195,464	167,435	176,644	186,007
Total operating expenditure	**697,644**	**689,244**	**727,153**	**765,692**
Capital expenditure	47,197	63,570	67,066	70,621

Total expenditure	**744,841**	**752,814**	**794,219**	**836,313**
Surplus/(Deficit) for the year	**-77,467**	**-80,713**	**-85,153**	**-89,666**

For a detailed grants funding for both capital and operating expenditure, please refer to Schedule A1 supporting tables SA18 to SA20 and for more detailed capital projects, please refer to page 11 of this document.

I therefore submit this Annual Budget for the 2015/2016 financial year for adoption.

1.2 Council Resolutions

i) That the Council of Kouga Local Municipality, hereby acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003) hereby approves and adopts:

a) The Annual Budget of the Kouga Municipality for the financial year 2015/16 and the multi-year and single-year capital appropriations as set out in the following tables:

1. Budgeted Financial Performance (revenue and expenditure by standard classification) as contained in Table A2 in Annexure A of the Budget Document.

2. Budgeted Financial Performance (revenue and expenditure by municipal vote) as contained in Table A3 in Annexure A of the Budget Document.

3. Multi-year and single-year capital appropriations as contained in Table A9 in Annexure A of the Budget Document.

b) That the financial position, draft cash flow budget, draft cash-backed reserve/accumulated surplus, draft asset management and basic service delivery targets be approved as set out in the following tables:

1. Budgeted Financial Position as contained in Table A6 in Annexure A of the Budget Document.

2. Budgeted Cash Flows as contained in Table A7 in Annexure A of the Budget Document.

3. Cash backed reserves and accumulated surplus reconciliation as contained in Table A8 in Annexure A of the Budget Document.

4. Asset Management as contained in Table A9 in Annexure A of the Budget Document.

5. Basic Service Delivery measurement as contained in Table A10 in Annexure A of the Budget Document.

ii) That the Council of Kouga Local Municipality, acting in terms of section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) hereby approves and adopts with effect from 1 July 2015:

a) All the Tariffs and Charges as contained in Annexure B of the Budget Document.

iii) That the amendments made to the Property Rates Policy and Property Rates Bylaw (page 21 paragraphs 18.1 & 18.2 of the Policy and page 21 paragraphs 19.1 & 19.2 of the Bylaw, be approved and adopted.

1.3 Executive Summary

The main focus of this budget is to maximise the service delivery to our communities, especially to poor and disadvantaged areas within kouga area whilst eliminating wastage of resources on unnecessary, non-service delivery items.

The operating budget have been cut and streamlined towards service delivery. The municipality in last three years has embarked on cost-cutting exercises and certain operating budget line items were identified as cost drivers e.g. fuel consumption and overtime and the directorates were advised to take drastic measurement to keep these costs at acceptable levels.

In the last few years, the capital budget of the municipality have been grant funded through MIG and INEP and this year the cutting of operating budget have yielded to internal funded capital projects of R 30,210 million. The municipality has now R 63,570 million capital budget including the grant funding and this budget will be used to better the lives of our people in terms of improved access roads, water, sanitation, community halls and electricity etc.

The National Treasury MFMA Circular No. 74 and 71 were used to guide the compilation of the 2015/2016 MTREF.

The main challenges experienced during the compilation of the 2015/2016 MTREF can be summarized as follows:

- The ongoing difficulties in the national and local economy;
- Aging and poorly maintained water, roads and electricity infrastructure;
- Increase in bulk electricity purchases by 14.24% whilst Nersa approved electricity tariff increases of 12.20% resulting to a shortfall of 2.04%; and
- Filling of vacant position.

The following budget principles and guidelines directly informed the compilation of the 2015/2016 MTREF:

- Service charges and other services tariffs were increased by 6%, 0.2% more than the 5.8% proposed in the National Treasury MFMA Circular No. 74 inflation forecasts, except electricity tariff increases by 12.20% as approved by Nersa and Water increased by 12%; and
- The grants and subsidies were budgeted in terms of the Division of Revenue Ac

In view of the aforementioned, the following table is a consolidated overview of the proposed 2015/2016 Medium-term Revenue and Expenditure Framework:

Table 1: Overall overview of the 2015/2016 Annual Budget

Description	Adjustments Budget 2014/2015	Budget 2015/2016	Budget 2016/2017	Budget 2017/2018
Total operating revenue	621,907	638,741	673,871	709,587
Total operating expenditure	697,644	689,244	727,153	765,692
Operating deficit for the year	(75,737)	(50,504)	(53,281)	(56,105)
Total Capital Expenditure	47,197	63,570	67,066	70,621

The operating revenue has grown by 6% or R 37,311 million (R 638,741 – (2014/2015: R 621,907 – 20,477 revenue forgone)) for the 2015/2016 financial year when compared to the 2014/2015 adjustments budget. The 2014/2015 R 20,477 million revenue forgone relates to subsidies given to the indigent households, the Auditor General wanted us to recognize those subsidies as revenue forgone and be netted off to the service charges revenue and the 2015/2016 operating revenue already includes the indigent subsidy budget.

The operating expenditure has grown by 2% or R 12,077 million (R 689,244 – (697,644 – 20,477)) when compared to the 2014/2015 adjustments budget.

The capital budget increased by 35% or R 16,373 million for the 2015/2016 financial year when compared to the 2014/2015 adjustments budget. The increase in the capital expenditure budget for this current financial year can be attributed to the internal funded capital projects of R 30,210 million. The capital grants make 52% of the total capital budget (MIG: R 29,260 million and INEP: R 4,100 million).

1.4 Operating Revenue Framework

The revenue anticipated for 2015/2016 financial year have been realistically projected at 6% which is in line with the National Treasury Circular 74 guidelines though is 0.2% more than the 5.8% proposed in the circular.

The following tables summarises the operating revenue budget for 2015/2016 financial year:

Table 2: Budgeted financial performance (revenue by source)

Description	Ref	2011/12	2012/13	2013/14	Current Year 2014/15				2015/16 Medium Term Revenue & Expenditure Framework		
R thousand	1	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
Revenue By Source											
Property rates	2	103 525	113 543	128 563	141 166	141 287	141 287	–	146 960	155 043	163 260
Property rates - penalties & collection charges		–	–	–	–	–	–	–	–	–	–
Service charges - electricity revenue	2	172 753	175 350	187 560	217 206	217 206	217 206	–	232 429	245 212	258 209
Service charges - water revenue	2	38 085	40 948	41 652	57 153	57 153	57 153	–	54 836	57 852	60 918
Service charges - sanitation revenue	2	30 997	30 255	30 544	33 006	35 047	35 047	–	40 236	42 449	44 698
Service charges - refuse revenue	2	23 888	25 502	20 453	34 630	34 787	34 787	–	27 905	29 440	31 000
Service charges - other		1 432	11 668	11 010	13 602	14 709	14 709	–	12 689	13 387	14 097
Rental of facilities and equipment		723	676	276	781	1 139	1 139	–	1 398	1 475	1 553
Interest earned - external investments		937	1 236	1 709	886	1 591	1 591	–	2 078	2 192	2 308
Interest earned - outstanding debtors		6 646	6 458	3 843	4 815	3 453	3 453	–	6 246	6 590	6 939
Dividends received											
Fines		2 880	1 035	357	8 094	8 181	8 181	–	1 655	1 746	1 838
Licences and permits		7 302	7 269	7 848	7 249	6 112	6 112	–	10 302	10 869	11 445
Agency services											
Transfers recognised - operational		70 806	94 664	85 916	87 847	87 865	87 865	–	92 151	97 220	102 372
Other revenue	2	6 222	12 240	17 549	12 630	13 379	13 379	–	9 855	10 397	10 948
Gains on disposal of PPE		–	180	1 087	–	–	–	–	–	–	–
Total Revenue (excluding capital transfers and contributions)		466 196	521 023	538 366	619 064	621 907	621 907	–	638 741	673 871	709 587

1.4.1. Property Rates

Property rates cover the cost of the provision of general services, such as recreational, library and roads and storm water services. Determining the effective property rate tariff is therefore an integral part of the municipality's budgeting process.

The categories of rateable properties for purposes of levying rates and the rates for the 2015/16 financial year based on a 6 per cent increase for businesses and 6 percent for residential properties from 1 July 2015 is contained in Annexure B.

1.4.2. Sale of Water and Impact of Tariff Increases

National Treasury is encouraging all municipalities to carefully review the level and structure of their water tariffs to ensure:

- Water tariffs are fully cost-reflective – including the cost of maintenance and renewal of purification plants, water networks and the cost associated with reticulation expansion;
- Water tariffs are structured to protect basic levels of service and ensure the provision of free water to the poorest of the poor (indigent); and
- Water tariffs are designed to encourage efficient and sustainable consumption.

A tariff increase of 12% will be implemented as from 1 July 2015. The tariff increase is mainly influenced by the following:

- The increased cost of bulk water purchases;

- Increase in repairs and maintenance of water infrastructure;
- Moving towards cost reflective tariffs
- Providing for debt impairment.

1.4.3. Sale of Electricity and Impact of Tariff Increases

Considering the Eskom increases, the consumer tariff had to be increased by an average of 12.20 per cent to offset the additional bulk purchase cost from 1 July 2015 and have been approved by Nersa.
The tariff increases are mainly influenced by the following:

- The increase in cost of bulk electricity purchases;
- Increase in repairs and maintenance of electricity infrastructure;
- Providing for debt impairment.

1.4.4. Sanitation and Impact of Tariff Increases

A tariff increase of 6 per cent for sanitation from 1 July 2015 will be implemented. This is based on the input cost assumptions related to water.

1.4.5. Waste Removal and Impact of Tariff Increases

A 6 per cent increase in the waste removal tariff will be implemented from 1 July 2015.

1.4.6. Free Basic Services: Basic Social Services Package

The social package assists households that are poor or face other circumstances that limit their ability to pay for services. To receive these free services the households are required to register in terms of the Municipality's Indigent Policy. Details relating to free services, cost of free basis services, revenue lost owing to free basic services as well as basic service delivery measurement are contained within the expenditure budget.

The cost of the social package of the registered indigent households is largely financed by national government through the local government equitable share received in terms of the annual Division of Revenue Act.

The current assistance being provided is:

- FREE 50 Kwh plus basic charge
- FREE 6 kl water plus basic charge
- FREE Monthly refuse, sewerage (based on 6 kl water), EMF levy
- FREE Extra R85,000 on the value of property for rates

In the amended and updated policy for Indigent Support Policy we have increased the FREE 6 kl water plus basic charge to 12 kl water plus basic charge.

1.5 Operating Expenditure Framework

The 2015/2016 expenditure framework budget and MTREF is informed by the following:

- The capital assets and repairs and maintenance requirements of directorates;

- Cash balance budget (we can't budget for cash deficit, but we can budget for non-cash deficit);
- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
- The capital programme and operational programme are aligned to the IDP;
- Operational surplus will be directed to funding the capital budget; and
- The directorates should have project plans for their capital and operational projects.

The operating expenditure budget for the 2015/2016 is summarised as followings;

Table 3: Budgeted financial performance (Expenditure by Type)

Description	Ref	2011/12	2012/13	2013/14	Current Year 2014/15				2015/16 Medium Term Revenue & Expenditure Framework		
R thousand	1	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
Expenditure By Type											
Employee related costs	2	181 762	193 299	208 085	202 775	201 450	201 450	–	212 437	224 121	236 000
Remuneration of councillors		7 949	8 594	9 025	10 911	10 959	10 959	–	11 678	12 321	12 974
Debt impairment	3	38 515	5 401	33 195	49 683	49 683	49 683	–	52 021	54 882	57 790
Depreciation & asset impairment	2	77 007	80 724	80 215	80 358	80 358	80 358	–	80 714	85 153	89 666
Finance charges		17 890	18 859	11 108	18 333	18 702	18 702	–	16 112	16 998	17 899
Bulk purchases	2	143 922	162 290	168 847	190 711	190 711	190 711	–	200 868	211 916	223 147
Other materials	8										
Contracted services		33	–	–	11 260	9 919	9 919	–	11 069	11 677	12 296
Transfers and grants		18 054	21 300	–	–	–	–	–	–	–	–
Other expenditure	4, 5	66 023	71 566	78 964	132 503	135 862	135 862	–	104 346	110 085	115 920
Loss on disposal of PPE		5	–	–	–	–	–	–	–	–	–
Total Expenditure		551 161	562 033	589 439	696 535	697 644	697 644	–	689 244	727 153	765 692

1.6 Capital Expenditure

The capital expenditure budget for the 2015/2016 financial year amounts to R 63,570 million and funded by conditional grants to an amount of R 33,360 million (MIG: R 29,260 million and INEPG: R 4,100 million) and own funding of R 30,210 million.

The following table summarises the capital expenditure budget for the 2015/2016 financial year:

Table 4: Capital expenditure by vote, standard classification and funding

Vote Description	Ref	2011/12	2012/13	2013/14	Current Year 2014/15				2015/16 Medium Term Revenue & Expenditure Framework		
R thousand	1	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
Capital Expenditure - Standard											
Governance and administration		1 401	468	823	–	377	377	–	6 645	7 010	7 382
Executive and council		–	–	109	–	121	121	–	6 500	6 858	7 221
Budget and treasury office		1 401	468	632	–	153	153	–	115	121	128
Corporate services		–	–	82	–	103	103	–	30	32	33
Community and public safety		–	134	847	6 051	9 391	9 391	–	12 689	13 387	14 096
Community and social services		–	–	61	1 800	1 866	1 866	–	2 115	2 231	2 350
Sport and recreation		–	–	484	4 251	7 420	7 420	–	8 149	8 597	9 053
Public safety		–	134	302	–	60	60	–	2 425	2 558	2 694
Housing		–	–	–	–	45	45	–	–	–	–
Health		–	–	–	–	–	–	–	–	–	–
Economic and environmental services		271	–	59	2 508	1 705	1 705	–	4 628	4 883	5 141
Planning and development		271	–	45	1 417	594	594	–	1 463	1 543	1 625
Road transport		–	–	–	–	–	–	–	–	–	–
Environmental protection		–	–	13	1 091	1 111	1 111	–	3 165	3 339	3 516
Trading services		22 202	28 631	16 368	27 672	35 723	35 723	–	39 608	41 786	44 001
Electricity		3 965	5 396	5 757	5 000	4 059	4 059	–	7 100	7 491	7 887
Water		4 279	2 374	854	–	–	–	–	–	–	–
Waste water management		13 958	20 861	9 749	22 672	31 664	31 664	–	32 508	34 296	36 114
Waste management		–	–	8	–	–	–	–	–	–	–
Other		–	–	–	–	–	–	–	–	–	–
Total Capital Expenditure - Standard	3	23 874	29 233	18 097	36 231	47 197	47 197	–	63 570	67 066	70 621
Funded by:											
National Government		22 202	28 631	16 654	33 340	42 576	42 576	–	33 360	35 195	37 060
Provincial Government		–	–	–	1 800	1 800	1 800	–	–	–	–
District Municipality		–	–	–	1 091	1 091	1 091	–	–	–	–
Other transfers and grants		30	–	–	–	–	–	–	–	–	–
Transfers recognised - capital	4	22 232	28 631	16 654	36 231	45 467	45 467	–	33 360	35 195	37 060
Public contributions & donations	5	–	–	–	–	–	–	–	–	–	–
Borrowing	6	–	–	–	–	–	–	–	–	–	–
Internally generated funds		1 642	602	1 443	–	1 730	1 730	–	30 210	31 872	33 561
Total Capital Funding	7	23 874	29 233	18 097	36 231	47 197	47 197	–	63 570	67 066	70 621

The capital projects to be undertaken over the Medium-Term Revenue and Expenditure Framework are as following:

Table 5: Capital projects for the 2015/2016 financial year

DEPARTMENT	DESCRIPTION	AMOUNT	FUNDING
ELECTRICITY	Electrification of OceanView	4 100 000.00	INEP
COUNCIL	Council Chambers	500 000.00	INTERNAL
FINANCE:CFO - DIRECTOR	Equipment	50 000.00	INTERNAL
FINANCE:EXPENDITURE	Equipment	50 000.00	INTERNAL
FINANCE:REVENUE	Equipment	15 000.00	INTERNAL
FINANCE:INFORMATION & COMMUNICATION TECHNOLOGY	Equipment	30 000.00	INTERNAL
ELECTRICITY	High Mast Lights	3 000 000.00	INTERNAL
ELECTRICITY	New Melkhout to Jeffreys Bay Main 66kv line	3 000 000.00	INTERNAL
SEWERAGE	Thorhill Sewer	2 600 000.00	INTERNAL
SEWERAGE	Fencing Kwanomzamo WWTW	2 000 000.00	INTERNAL
SEWERAGE	Wavecrest Internal Sewer	4 500 000.00	INTERNAL
SPORT AND RECREATION	Restoration of stage Kruisfontein Civic Centre	260 000.00	INTERNAL
CEMETERIES	Fencing of existing cemeteries	1 000 000.00	INTERNAL
CEMETERIES	Bemrs C-Place cemetery	45 000.00	INTERNAL
PARKS AND OPEN SPACES	Auto Scaff (tree felling)	160 000.00	INTERNAL
ENVIRONMENTAL MANAGEMENT	Transfer station Patensie	2 000 000.00	INTERNAL
ENVIRONMENTAL MANAGEMENT	Thornhill Mini Transfer Station	350 000.00	INTERNAL
ENVIRONMENTAL MANAGEMENT	Oyster Bay Mini Transfer Station	350 000.00	INTERNAL
ENVIRONMENTAL MANAGEMENT	Weston Transfer Station	350 000.00	INTERNAL
PROTECTIVE SERVICES	Driving license testing track	500 000.00	INTERNAL
FIRE BRIGADE	Upgrade of fire hydrants	500 000.00	INTERNAL
FIRE BRIGADE	Fire fighting trailer (Oyster Bay)	50 000.00	INTERNAL
PROTECTIVE SERVICES	Road Block Trailer	50 000.00	INTERNAL
FIRE BRIGADE	Satellite fire station (Oyster Bay)	1 000 000.00	INTERNAL
LIBRARY	Celling of Weston library building	80 000.00	INTERNAL
BEACHES	Fencing of Ski-boat Club Jeffrey's Bay Library	400 000.00	INTERNAL
ENVIRONMENTAL HEALTH	Acquisition for wheel chairs	100 000.00	INTERNAL
SPORT AND RECREATION	Kwanomzamo - New Community Hall	6 500 000.00	INTERNAL
FIRE BRIGADE	Acquisition of fire fighting equipment	325 000.00	INTERNAL
PARKS AND OPEN SPACES	Acquisition of grass cutting equipment	300 000.00	INTERNAL
ENVIRONMENTAL HEALTH	Equipment	15 000.00	INTERNAL
OCCUPATIONAL HEALTH AND SAFETY	Equipment	30 000.00	INTERNAL
LED,TOURISM & CREATIVE INDUSTRIES : DIRECTOR	Furniture & Equipment	100 000	INTERNAL
SEWERAGE	Upgrade Kruisfontein WWTW & Outfall Sewer	10 589 923.50	MIG
SEWERAGE	Patensie Replacement of Digesters Ph 1	12 818 076.50	MIG
SPORT AND RECREATION	Upgrade Sports Facilities	4 389 000.00	MIG
ECONOMIC DEVELOPMENT :GENERAL	LED (Social Institutions & Micro Enterprise Infrastructure)	1 463 000	MIG
TOTAL		**63 570 000.00**	

1.7 Annual Budget Tables – Annexure A

The Draft Annual Budget Schedule A have been attached as an Annexure A with the prescribed tables and supporting documents as required in Municipal Budget and Reporting Regulations.

Explanatory notes to MBRR Table A1 - Budget Summary

1. Table A1 is a budget summary and provides a concise overview of the Municipality's budget from all of the major financial perspectives (operating, capital expenditure, financial position, cash flow, and MFMA funding compliance).
2. The table provides an overview of the amounts approved by Council for operating performance, resources deployed to capital expenditure, financial position, cash and funding compliance, as well as the municipality's commitment to eliminating basic service delivery backlogs.
3. Financial management reforms emphasises the importance of the municipal budget being funded. This requires the simultaneous assessment of the Financial Performance, Financial Position and Cash Flow Budgets, along with the Capital Budget. The Budget Summary provides the key information in this regard:
    a. The operating surplus/deficit (after Total Expenditure) is positive over the MTREF
    b. Capital expenditure is balanced by capital funding sources, of which
        i. Transfers recognised is reflected on the Financial Performance Budget;
        ii. Borrowing is incorporated in the net cash from financing on the Cash Flow Budget
        iii. Internally generated funds are financed from a combination of the current operating surplus and accumulated cash-backed surpluses from previous years. The amount is incorporated in the Net cash from investing on the Cash Flow Budget. The fact that the municipality's cash flow remains positive, and is improving indicates that the necessary cash resources are available to fund the Capital Budget.
4. The Cash backing/surplus reconciliation shows that in previous financial years the municipality was not paying much attention to managing this aspect of its finances, and consequently many of its obligations are not cash-backed. This places the municipality in a very vulnerable financial position, as the recent slow-down in revenue collections highlighted. It is necessary to ensure adequate cash-backing for all material obligations. This cannot be achieved in one financial year.
5. Even though the Council is placing great emphasis on securing the financial sustainability of the municipality, this is not being done at the expense of services to the poor. The section of Free Services shows that the amount spent on Free Basic Services and the revenue cost of free services provided by the municipality continues to increase. In addition, the municipality continues to make progress in addressing service delivery backlogs.

Explanatory notes to MBRR Table A2 - Budgeted Financial Performance (revenue and expenditure by standard classification)

1. Table A2 is a view of the budgeted financial performance in relation to revenue and expenditure per standard classification.
2. Note the Total Revenue on this table includes capital revenues (Transfers recognised – capital) and so does not balance to the operating revenue shown on Table A4.
3. Note that as a general principle the revenues for the Trading Services should exceed their expenditures.

Explanatory notes to MBRR Table A3 - Budgeted Financial Performance (revenue and expenditure by municipal vote)

1. Table A3 is a view of the budgeted financial performance in relation to the revenue and expenditure per municipal vote. This table facilitates the view of the budgeted operating performance in relation to the organisational structure of the Municipality. This means that it is possible to present the operating surplus or deficit of a vote.

Explanatory notes to Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding source

1. Table A5 is a breakdown of the capital programme in relation to capital expenditure by municipal vote (multi-year and single-year appropriations); capital expenditure by standard classification; and the funding sources necessary to fund the capital budget, including information on capital transfers from national and provincial departments.

Explanatory notes to Table A6 - Budgeted Financial Position

1. Table A6 is consistent with international standards of good financial management practice, and improves understandability for councilors and management of the impact of the budget on the statement of financial position (balance sheet).
2. This format of presenting the statement of financial position is aligned to GRAP1, which is generally aligned to the international version which presents Assets less Liabilities as "accounting" Community Wealth. The order of items within each group illustrates items in order of liquidity; i.e. assets readily converted to cash, or liabilities immediately required to be met from cash, appear first.

Explanatory notes to Table A7 - Budgeted Cash Flow Statement

1. The budgeted cash flow statement is the first measurement in determining if the budget is funded.
2. It shows the expected level of cash in-flow versus cash out-flow that is likely to result from the implementation of the budget.

Explanatory notes to Table A8 - Cash Backed Reserves/Accumulated Surplus Reconciliation

1. The cash backed reserves/accumulated surplus reconciliation is aligned to the requirements of MFMA Circular 42 – Funding a Municipal Budget.
2. In essence the table evaluates the funding levels of the budget by firstly forecasting the cash and investments at year end and secondly reconciling the available funding to the liabilities/commitments that exist.
3. The outcome of this exercise would either be a surplus or deficit. A deficit would indicate that the applications exceed the cash and investments available and would be indicative of non-compliance with the MFMA requirements that the municipality's budget must be "funded".
4. Non-compliance with section 18 of the MFMA is assumed because a shortfall would indirectly indicate that the annual budget is not appropriately funded.

Explanatory notes to Table A9 - Asset Management

1. Table A9 provides an overview of municipal capital allocations to building new assets and the renewal of existing assets, as well as spending on repairs and maintenance by asset class.

Explanatory notes to Table A10 - Basic Service Delivery Measurement

1. Table A10 provides an overview of service delivery levels, including backlogs (below minimum service level), for each of the main services.

Part 2 – Supporting Documentation

2.1 Overview of the annual budget process

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget.

2.1.1 Budget Process Overview

In terms of section 21 of the MFMA the Mayor is required to table in Council ten months before the start of the new financial year a time schedule that sets out the process to revise the IDP and prepare the budget.

Key dates applicable to the process were:

- **August 2014** – Joint strategic planning session of the Mayoral Committee and Executive Management. Aim: to review past performance trends of the capital and operating budgets, the economic realities and to set the prioritisation criteria for the compilation of the 2015/16 MTREF;
- **November 2014** – Detail departmental budget proposals (capital and operating) submitted to the Budget and Treasury Office for consolidation and assessment against the financial planning guidelines;
- **3 to 7 January 2015** - Review of the financial strategy and key economic and financial planning assumptions. This included financial forecasting and scenario considerations;
- **January 2015** – Multi-year budget proposals are submitted to the Mayoral Committee for endorsement;
- **30 January 2015** - Council considers the 2014/15 Mid-year Review and Adjustments Budget;
- **February 2015** - Recommendations of the Mayoral Committee are communicated to the respective departments. The draft 2015/16 MTREF is revised accordingly;
- **31 March 2015** - Tabling in Council of the draft 2015/16 IDP and 2015/16 MTREF for public consultation;
- **April 2015** – Public consultation;
- **20 May 2015** - Closing date for written comments;
- **May 2015** – finalisation of the 2015/16 IDP and 2015/16 MTREF, taking into consideration comments received from the public, comments from National Treasury, and updated information from the most recent Division of Revenue Bill and financial framework; and
- **29 May 2015** - Tabling of the 2015/16 MTREF before Council for consideration and approval.

2.2 Legislation compliance status

Compliance with the Municipal Finance Management Act implementation requirements have been substantially adhered to through the following activities:

2.2.1 In-year reporting
Reporting to National Treasury in electronic format was fully complied with on a monthly basis. Section 71 reporting to the Executive Mayor (within 10 working days) has progressively improved and includes monthly published financial performance on the kouga website.

2.2.2 Internship programme
The kouga local municipality is participating in the Municipal Financial Management Internship programme and has appointed five interns undergoing training in various divisions of the finance department.

2.2.3 Budget and Treasury Office
The Budget and Treasury Office has been established in accordance with the MFMA.

2.2.4 Audit Committee
An Audit committee has been established and is fully functional.

2.2.5 Service Delivery and Budget Implement Plan
The 2015/2016 SDBIP will be finalized after the approval of 2015/2016 MTREF in May 2015.

2.2.6 Annual Report
Annual report is compiled in terms of the MFMA and National Treasury requirements.

2.3 Municipal Manager’s Quality Certificate

I …………………………………, Municipal Manager of Kouga Local Municipality, hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name ____

Municipal manager of Kouga Local Municipality

Signature ____

Date ______________________________